COVER STORY

BLOOMBERG

Luxury homes and yachts in Singapore. As the coronavirus pandemic hammers Southeast Asia and political turmoil threatens Hong Kong, the city-state has become a safe harbour for some of the region's wealthiest tycoons and their families

What's trending in wealth management

As wealth is handed over to a new generation, a new age of private wealth management — driven by technology, rising demand for riskier assets and all the talk on sustainability — is emerging in Singapore

BY **KHAIRANI AFIFI NOORDIN**
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In recent years, the use of offshore structures and trusts in tax havens have gotten bad press. This is mainly due to document leaks that have exposed how corporations and wealthy individuals have been seeking offshore service providers — an avenue not available to the masses — to enjoy tax benefits, among others.

While these leaks have led to official investigations and policy changes, they did not deter the growth of wealth creation — and the business of managing these funds. Income disparity is recognised by many governments as a growing problem but so has the economic benefits of this overall business of managing wealth.

According to a report by Boston Consulting Group released in June, Hong Kong is expected to take the lead from Switzerland as the largest cross-border booking centre in 2023, with strong inflows from mainland China driving assets under management (AUM) to US$3.2 trillion ($4.3 trillion) by 2025 — a CAGR of 8.5%. Singapore, the fastest-growing booking centre, will remain the third-largest in AUM, slated to grow by a CAGR of 9.1% to reach US$1.9 trillion by 2025.

Juris Asia LLC partner Tan Choon Leng tells *The Edge Singapore* that aside from tax benefits and privacy, there are plenty of other reasons why affluent individuals and corporations continue to set up offshore structures. These include the search for a well-defined and time-tested legal framework, better banking infrastructure and overall convenience.

"Many people thought that setting up offshore entities would automatically mean that one would benefit from low to no tax. This is not necessarily true as many of these offshore countries do not have access to tax treaty networks," says Tan.

THE EDGE SINGAPORE

Tan of Juris Asia: Many people thought that setting up offshore entities would automatically mean that one would benefit from low to no tax. This is not necessarily true

ST JAME'S PLACE WEALTH MANAGEMENT ASIA

Joel Carpenter of St James's Place (SJP) Wealth Management Asia: Asia has seen significant growth in the number of affluent populations and this has resulted in an ever-increasing demand for professional wealth management services

ALBERT CHUA/THE EDGE SINGAPORE

Kendrick Lee: A lot of families are in the midst of entering the second and third generations. They are aware of the challenges and complexities that come with intergenerational wealth transfers and would like to address these concerns

COVENANT CAPITAL

Edwin Lee of Covenant Capital: A lot of wealth managers have used technologies to their advantage, acknowledging that digital is the way forward when it comes to advising their clients

According to Tan, in some instances, companies or individuals end up paying higher taxes just so they could get access to a good legal framework in jurisdictions such as Hong Kong and Singapore.

In any case, these offshore tax havens have been getting higher scrutiny over the years, resulting in stricter anti-money laundering (AML) and know-your-customer (KYC) compliance requirements. "Trust me as somebody in the system when I say it is a lot more work for us to do that but it is necessary," says Tan.

One key reason why offshore structures are in the spotlight is the reports put together by the International Consortium of Investigative Journalists (ICIJ) over the past decade, based on troves of documents and other data leaked by their sources.

The "Offshore Leaks" of 2013 kicked off this whole series of such reports and was followed by more voluminous "Panama Papers" of 2016. The leak, which comprised 11.5 million encrypted confidential documents, gained heavy public interest as it exposed prominent celebrities, politicians and public figures from 200 different nationals. A year later, "Paradise Papers" followed, with 13.4 million documents forming the stash.

Most recently, on Oct 3, ICIJ made yet another exposé — dubbed "Pandora Papers" — where almost 12 million documents were leaked in a 2.94 terabyte data trove. The files revealed secret offshore holdings of about 336 high-level politicians and public officials in 91 countries and territories from financial services companies in countries including Singapore.

However, the leak did not generate as much public interest in this part of the world compared to the previous leaks. This could be due to the lack of key revelations in Asia and the general acceptance among the public of the use of offshore structures, says Tan.

"It seems to me that most people have started to accept that there is an offshore world that is legal and allowed to exist and they would much rather focus on what they see as a bigger issue such as climate change and lack of quality jobs," he adds.

Asiaciti Trust, a Singapore-based trust services provider, was named in the Pandora Papers, with a reported stash of two million documents originating from this entity set up in 1978 in Hong Kong by Australian accountant Graeme Briggs. Since then, the firm has expanded its presence to also the Cook Islands, Dubai, Nevis in the Caribbeans, New Zealand, Panama and Samoa.

While no notable Singaporean names were mentioned in the latest leak, key Asian figures mentioned in the Pandora Papers include Malaysia's finance minister Zafrul Aziz, Indonesian senior minister Luhut Pandjaitan as well as former Hong Kong leaders Tung Chee Hwa and Leung Chun Ying.

Given Singapore's favourable tax systems, pro-business regulatory environment and its reputation as a global financial centre, it is no surprise that Singapore will figure in any of these leaks although the growth momentum of Singapore as a wealth management centre did not seem to have slowed because of these series of leaks.

Driven by strong inflows into traditional and alternative investments as well as valuation gains across major asset markets, the city-state's total AUM grew by 17% year-on-year to $4.7 trillion as at end 2020, according to the Monetary Authority of Singapore (MAS). That is slightly faster than the 15.7% growth seen for 2019. For 2018, the growth was 5.4% to $3.4 trillion. The overall financial services sector grew 5.1% in 2020, even as the wider economy tanked because of the pandemic.

Indeed, Singapore has become one of the top choices among affluent individuals setting up their offshore structures, says Edwin Lee, CEO of Covenant Capital and a committee member (education) at the Association of Independent Wealth Managers Singapore (AIWM).

"When it comes to wealth preservation across multiple generations, two things are very important — stability and certainty. The wealthy families want the peace of mind that their assets are secure and would not suffer from sudden changes in the jurisdiction's political landscape, for example. This, coupled with attractive tax incentives, makes Singapore an attractive offshore hub for many private wealth management clients," says Edwin.

The rise of digital tools and technologies

Beyond headline numbers showing how quickly the industry has grown, there are several underlying new trends shaping up as well. As wealth from the previous generation changes hands to the next generation, a new age of private wealth management — driven by technology, higher demand for riskier alternative asset classes and sustainability — has arrived.

Adapting to the changes, wealth managers in the region have embarked on their own digital transformation journey while still ensuring that their clients still get the personalised service, trust and transparency expected from engaging wealth management professionals.

"As a region, Asia has seen significant growth in the number of affluent populations. This results in an ever-increasing demand for professional wealth management services," says Joel Carpenter, divisional director at St James's Place (SJP) Wealth Management Asia.

According to Knight Frank's *The Wealth Report* released in March, Asia-Pacific is one of the fastest-growing regions for wealth, with 168,567 ultra-high net worth investors (UNHWIs) expected by 2025. This is a 33% growth from 2020, faster than the global average of 27%.

The report also states that the number of billionaires and millionaires in Asia-Pacific is set to rise by 46% and 37% respectively over the same period. Currently, the region homes more billionaires than any other region at 36%.

Meanwhile, a separate report by Credit Suisse published in June stated that there were approximately 270,000 millionaires in Singapore last year. This figure is set to grow by 61% by 2025, reaching 437,000.

This growth in wealth is translated into an uptick of family offices operating in Singapore, says Kendrick Lee, managing partner of Raffles Family Office (RFO). "I believe the growth would be more apparent going forward. The number of family offices in Singapore has tripled in the past few years and right now we have more than 230 family offices with over US$20 billion in assets under management," he adds.

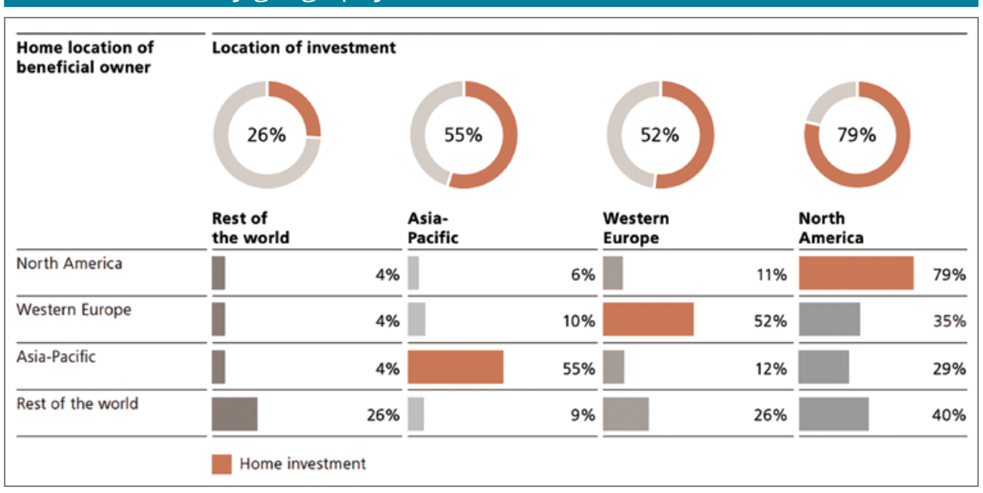
The growth is mainly driven by the growing acknowledgement that a proper structure is needed for intergenerational wealth, says Kendrick. "Right now, a lot of families are entering the second and third generations. They are aware of the challenges and complexities that come with intergenerational wealth transfers and would like to address these concerns."

As the business revolves around relationships and trust, wealth management advisery involves engaging with dedicated human advisers, who will then provide personalised advice for the clients. For decades, this has been the preferred model for both clients and wealth managers. However, technological advancements and the introduction of robo-advisery has affected the industry, leading to a new era of the hybrid model — a combination of humans and digital capabilities.

Edwin says wealth managers in the region have increasingly adopted digital tools to assist their clients, adding that the tools provide a significant opportunity for wealth managers to serve more clients.

UBS

Asset allocation by geography



BOSTON CONSULTING GROUP

Leading global cross-border financial centres

Cross-border financial center wealth, 2020 ($trillions)

Sources: Global Wealth Report 2021; BCG global wealth market sizing and benchmarking database.

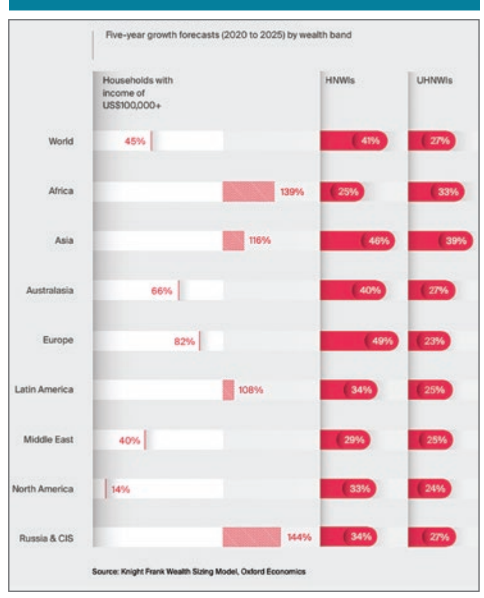
Note: Cross-border wealth is defined as financial wealth booked in a jurisdiction separate from the wealth owner's jurisdiction of domicile. All dollar figures are expressed in US dollars.

[1] Although we anticipate that the tenth-largest cross-border financial center in 2025 will be Cyprus, we have replaced it with Liechtenstein in the 2025 ranking chart because Liechtenstein has a more geographically diverse client base and global status.

	2020 ranking	2025 ranking
1.	Switzerland	Hong Kong
2.	Hong Kong	Switzerland
3.	Singapore	Singapore
4.	US	US
5.	CI and Isle of Man	UAE
6.	UAE	CI and Isle of Man
7.	UK mainland	UK mainland
8.	Luxembourg	Luxembourg
9.	Monaco	Monaco
10.	Liechtenstein	Liechtenstein[1]

KNIGHT FRANK, GLOBAL ECONOMICS

Rise of the mass affluent



"Due to the nature of the business, the inability to meet with clients does affect the wealth management industry. However, a lot of wealth managers have used technologies to their advantage, acknowledging that digital is the way forward when it comes to advising their clients," says Edwin.

While there is no doubt that technology has helped the industry, Carpenter says there is still a clear need for investors to still be able to access human advisers and guidance as there are certain intangible values that technology could not provide.

"Investing one's hard-earned wealth is an incredibly emotional process — it is definitely not easy for anyone to see their investments drop in value. As wealth managers, we should not forget that regardless of how technology has helped, the clients still need their emotions to be validated."

For example, the clients may be tempted to take out their investments upon seeing market dips — this was something that could be seen throughout last year, induced by the Covid-19 pandemic. Carpenter says, unlike computers, individual wealth managers can advise their clients with empathy and remind them that they are investing for a long-term horizon.

"We can tell our clients that although we understand how they are feeling and we want to support them, they might lose out on potential market rebounds and opportunity for gains if they pull out on their investments due to short-term swings. We can provide them with past research to let them fully understand why they suggest against doing so," he adds.

The S&P 500, for instance, has doubled its level from the pandemic closing low recorded last year. This makes it the fastest bull market doubling off a bottom since World War II, according to a *CNBC* analysis. On Aug 16, the broad equity benchmark rallied 100% on a closing basis from its Covid-19 trough of 2,237.40 on March 23, 2020.

In Asia, robo-advisery solutions, which are seen as a more transparent, convenient and low-cost alternative to human financial advisers, are still mainly serving the retail population of the market. Robo-advisery platforms Syfe (See story on Page 10) and StashAway, for example, do not impose any minimum deposit amount for their users to get started.

While it may not completely dismiss the need for human advisers in the high-net-worth and ultra-high-net-worth advisery segment, will it eventually command the lion share of the market? In developed markets, companies like Betterment, Wealthfront and Vanguard have all introduced their robo-advisery platforms for high-net-worth investors, equipped with sophisticated technologies to manage large amounts of assets.

Kendrick thinks it will take some time before these platforms would be significant in the region, highlighting again the importance of human intervention in wealth management. "That said, algorithmic trading can exist within the portfolio as a strategy," he adds.

Edwin concurs, adding that quantitative strategies themselves are not new — in fact, they have been around for decades. The appeal of newer technology-backed investment platforms, however, lies in the attractive interface and seamless user experience.

"As independent wealth managers, we should look at these platforms as potential solutions that we could leverage on as well — they are not something to compete against. When engaging with the clients, we have to see whether incorporating the strategies would make sense and how much should be allocated to them — that is our role," he says.

Bigger appetite for riskier alternatives

In a lower-for-longer interest rate environment, investors are increasingly looking for yield in alternative asset classes to enhance the returns provided by their traditional investments. Subsequently, there is a growing demand among the region's affluent to increase their allocations in "riskier" alternative asset classes such as venture capital, private equity (PE), hedge funds and syndicated investments in real assets, says Edwin.

Edwin recalls how when he first started in the industry two decades ago, there was a general lack of awareness about most asset classes — and that includes many private bankers and investment professionals. That has changed tremendously as a newer generation of clients is increasingly interested in liquid and illiquid alternative investments such as hedge funds, single venture deals, venture funds, and PE funds. "This is an area wealth managers can look for value and provide alpha, especially when the capital markets are jittery," he says.

"Yet, there is a need to highlight that in this

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VCC to continue surge as onshoring takes hold

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A significant driver of the assets under management (AUM) here in Singapore in the past year or so can be attributed to a new structure: Variable Capital Companies (VCCs). The VCC Act was implemented only last January but as of 1Q2021, some 250 VCCs have already been incorporated here.

Despite the pandemic, some 300 VCCs could be set up by 3Q2021. During an RHT Law webinar briefing back in July, Yang Eu Jin, partner at RHT Law, said during a "stock-take" in 3Q2020, some 100 VCCs had been established here. By 1Q2021, that number had more than doubled to 250. And by the end of 3Q2021, he assumes there could be as many as 300 VCC.

A VCC is a flexible and efficient fund structure for either traditional or alternative assets. They can be close-ended or open-ended. A VCC can be an umbrella entity, with various sub-funds within it. VCC structures are used by accredited investors (AI), institutions, multi-family offices and other types of institutional investors. They are not designed for retail investors.

Increasingly, investors are looking for jurisdictions where they can "onshore" their capital. "Most clients prefer a jurisdiction where capital is onshored and where they would like to reside. Most people like to spend time here [in Singapore]," notes Velverne Yuen, partner at Blauwpark Partners, at the RHT Law webinar. Blauwpark Partners is a family office. There is a notable shift to onshore structures from offshore structures because clients prefer to have fund management capabilities where the family office is structured, Yuen adds.

One of the requirements of a VCC is to have a local licensed fund manager sponsoring and managing the fund, which the Monetary Authority of Singapore (MAS) holds accountable for the VCC. This requirement is not present in other jurisdictions and is a comfort to investors in the event of adverse developments.

"The product is designed to be user friendly and flexible. The key features are the ability to distribute returns out of more than just accounting profits although offshore jurisdictions do this; and the ability to segregate the portfolio," says Yang. A VCC can comprise an umbrella portfolio with sub-funds within the umbrella where the sub-funds assets and liabilities are segregated and insulated from each other.

While VCC can stand on its own as an attractive product, tax incentives make it doubly attractive. Sections 13R and 13X of the Income Tax Act to include VCCs were announced in Budget 2018. These sections provide tax exemptions on specified income from designated investments derived by funds managed by a Singapore-based fund manager.

To recap, VCCs approved under the 13R Scheme or 13X Scheme will qualify for withholding tax exemptions on interest and other qualifying payments. The 13R Scheme requires, among other things, the applicant fund to have annual business expenses of at least $200,000 (local or otherwise), while the 13X Scheme requires the applicant fund to have annual local business expenses of at least $200,000 and a minimum fund size of $50 million at the time of application.

In the case of umbrella VCCs, the tax incentives under the 13R Scheme and the 13X Scheme are granted at the umbrella level. Practically, this means that the requirements for these tax incentive schemes, including the requirements pertaining to AUM (in the case of Section 13X) and annual business expenditure (in both cases), can be aggregated across all of the sub-funds under the umbrella VCC.

Unlike a private limited company in Singapore, the VCC does not have a limit on the number of shareholders that it can have. As a corporate structure, unlike LPs (limited partnerships), it can also access Singapore's extensive Avoidance of Double Taxation Agreements (DTAs) networks. Singapore has DTAs with around 90 other countries. Moreover, Singapore is not a tax haven. Meanwhile, the Cayman Islands, British Virgin Islands, Isle of Man, Jersey and Guernsey are no longer part of the European Union following Brexit, hence losing the advantage of recognition as part of the EU.

Fund managers can re-domicile their funds to Singapore-based VCC with no minimum requirement for AUM. The key minimum requirement for re-domiciliation is that the fund seeking re-domiciliation is solvent and an MAS-licensed fund manager has to manage the fund. The re-domiciled entity can claim a credit for exit taxes paid to the exited jurisdiction, to encourage re-domiciliation in Singapore.

The VCC Act serves to position Singapore as a full-service Asian hub for fund management and domiciliation under the Industry Transformation Map (ITM) for Financial Services. VCC aims to allow Singapore to capture a greater share of the fund management and fund domiciliation value chain. More funds being set up in Singapore would inevitably lead to more high-quality jobs. Setting up VCC requires lawyers and because fund sizes are likely to be at least $50 million and fund administrators are needed, as will be auditors and accountants.

If the average size of VCC is $50 million — the largest VCC has AUM of more than $500 million — then VCC AUM could be as high as $15 billion as at 3Q2021.

Observers expect VCC regulations to be tweaked in a so-called VCC 2.0. For instance, while assets and liabilities of sub-funds are segregated, the investors of sub-funds can view each other's financial reports. This is likely to be changed. In addition to multi-family offices, single-family offices are likely to be able to structure VCCs.

All in, Singapore is not just an attractive place to work, live and play — it is also an attractive jurisdiction for VCCs. ■

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hunt for yield and returns. Investors must be cautioned against overexposing themselves to illiquid asset classes. Time and again, we are reminded of the value of the liquidity premium only when the tide goes out," says Edwin, adding that venture capital and PE are popular among affluent families as they are typically entrepreneurs themselves.

Kendrick says the bulk of the attention is being placed in late-stage venture and pre-IPO stages. "We are definitely seeing this as a growing need, especially for the clients belonging to the younger generation. In fact, PE is now part of our strategy. We have even recently hired a very experienced personnel to head our PE department," he adds.

PE has become a key for driving returns in an otherwise low-yield world, according to the *UBS Global Family Office Report 2021*. In 2020, 68% of family offices agree that PE plays a central role, accounting for a high proportion of the alternative assets. Three quarters (75%) of those surveyed think PE will deliver higher returns than public equity markets while 44% view it as a source of diversification.

Out of the 83% of the survey respondents who invest in PE, 23% invest in funds of funds, 47% invest in both funds and direct investments, while the remaining 30% invest in direct PE. The report notes that direct PE has become more accessible, with secondary markets providing greater liquidity.

In Singapore, several platforms allow investments in assets such as PE in smaller ticket sizes. So-called "accredited investors" — those with investable assets of at least $1 million or annual income of at least $300,000 — are permitted admission.

These platforms — such as 1exchange (a member of private markets ecosystem CapBridge Financial) and ADDX (previously known as iStox) are powered by blockchain technology to allow for recording transactions and tracking the ownership of securities transparently and securely.

Edwin commends the innovation, adding that there are several wealth managers that take advantage of the platforms as it would require a considerable amount of resource allocation if they were to fractionalise the asset classes themselves.

Another alternative asset class that has risen to popularity is cryptocurrencies. In its inaugural report released July 21, **Goldman Sachs** found that the digital assets landscape has experienced significant growth and the focus of family offices on the space has grown in tandem.

While only a small portion of the survey respondents — about 15% globally — have exposure to cryptocurrencies to date, almost half indicated that they may be interested in initiating exposure in the future. The report says some family offices are considering cryptocurrencies as a way to position for higher inflation, prolonged low rates and other macroeconomic developments following a year of unprecedented global monetary and fiscal stimulus.

As at Oct 12, cryptocurrencies had a market capitalisation of about US$2.42 trillion (according to data provided by CoinGecko, which tracks 9,643 coins). Bitcoin's market capitalisation alone, which accounts for 44.6% of the market, stood at US$1.08 trillion.

Due to its exponential growth, digital assets definitely make up a space that wealth managers cannot ignore, says Kendrick. However, he adds that it is still in the early stages of adoption among the affluent and the firm is currently in the process of ramping up its understanding of the digital assets space.

Similarly, Edwin thinks digital assets are still far from being in the mainstream and is a very polarising asset class. He says there are still very valid concerns in the space, which includes its linkages to money laundering, lack of clearer regulations as well other practical issues.

"Eventually, I think digital assets will play a bigger part in one's portfolio. That being said, there are many different ways one could be involved in the digital assets space without actually investing in the coins themselves. For example, they could buy stocks of companies that have crypto assets or invest in venture funds that in turn invest in companies that benefit from the space. These are only some of the options available," says Edwin.

Meanwhile, Carpenter acknowledges that some clients will be drawn to things like cryptocurrencies, Special Purpose Acquisition Companies (SPACs) or meme stocks (referring to stocks that have gone viral with internet popularity) that might help make a quick buck.

However, drawing on his firm's research, regardless of which alternative asset classes have gotten significant attention recently, a much more important trend to note is that clients now place the most importance on the need for diversification, followed by risk management and liquidity. "It is not about them looking for quick returns in riskier assets, it is about taking a more risk-averse approach of achieving long-term objectives with a diversified portfolio," says Carpenter.

Sustainability a strong trend

Over the past few years, there is a strong focus on environmental, social and corporate governance (ESG). Quoting a recent study done by SJP Asia, Carpenter says over two-thirds of Singaporeans were motivated to invest responsibly as the Covid-19 pandemic has highlighted many of the critical sustainability issues.

The study, which surveyed 1,005 affluent to high net worth investors in Singapore found 64% of the respondents say that ESG and sustainability are now factors in how they select investments, with this rising to 72% for investors in higher income brackets of $200,000 and above per annum.

Carpenter sees multiple contributing factors to this. For one, companies both large and small now have greater awareness. "On the other side of the coin, we now have a different generation of investors, one that is more socially aware of their impact on the environment."

More than half (59%) of the survey respondents say they actively seek ESG information before investing. The importance of ESG factors in investment decisions is significantly higher for younger investors between 25 and 34 years old at 67% compared to those above 45 years old at 60%. Additionally, half (50%) of investors in Singapore say they are prepared to actively divest from companies that do not operate sustainably.

Carpenter highlights that there are still concerns around how investing in ESG would mean sacrificing returns, as 54% of the survey respondents in Singapore believe this to be the case. However, Carpenter asserts that in the long term, having a robust sustainable approach actually protects returns, providing a hedge against environmental factors.

In its analysis, S&P Global Market Intelligence found that many large investment funds with ESG criteria outperformed the broader market in the first 12 months of the Covid-19 pandemic. Out of the 25 ESG exchange-traded funds and mutual funds with more than US$250 million in assets under management analysed, 19 performed better than the S&P 500. The outperformers rose between 27.3% and 55% from March 5, 2020, to March 5, compared to the S&P 500 which increased 27.1%.

"Our responsibility as an industry is to continue to tell that story in an educational way," says Carpenter. ■